

8. Public Finance

8.1 General Government Sector Operations

The general government deficit widened very slightly, year-on-year, in Q1.

According to current data, the general government sector in the Czech Republic had a deficit of 72.3¹ bn CZK in Q1 2026². The deficit widened again, year-on-year (by 1.6 bn CZK³), nevertheless an order of magnitude more moderately than at the beginning of last year. While growth of total revenues accelerated slightly (to 5.2%), the pace of expenditure slowed a bit (to 4.9%). The steadily growing social contributions received by employees and employers (+6.5%) continued to add the most to the strengthening of incomes. Direct taxes also had a significant impact, although growth of most of them has been weaker so far this year compared to previous quarters. As regards indirect taxes, VAT in particular had a positive effect, the collection of which gradually increased (to +8.9%, the highest within the first quarter in the last four years). Most other income items also grew at least slightly, with the exception of capital transfers that were more marginal in terms of weight, as well as some taxes on production (mainly due to the abolition of the fee for renewable energy sources to households and firms).

The higher total expenditure mainly reflected the strengthening social benefits and investments.

The year-on-year increase of total expenditure in the general government sector in Q1 (+42 bn CZK) was driven by social benefits (including social transfers in kind), which contributed more than a third to it and increased by 4.3% (almost twice as much as last year's total). Continued rapid investment growth, which attained 13.8%, was also instrumental in the year-on-year increase and, was also significantly supported by higher activity by local government institutions as in the whole of last year. In total, significant compensation to employees⁴ increased by 4.7% (more rapidly in central government). This presented a comparable pace to the beginning of last year (but so far weaker than the average for the whole of 2025). Other current transfers increased by 9.4% this year. Their rapid growth, which is taking place for the second year in a row, was mainly due to higher mandatory contributions by the Czech Republic to the EU budget. However, growth of some important items slowed. Intermediate consumption expenditure increased by only 1.9% (the least in the last twenty quarters), partly due to a decline of prices of some energy and also to growing general pressure on savings of operating expenses. Growth of subsidies also moderated (to +3.1%), owing to a lower year-on-year volume of subsidies paid out for production⁵. The growth of total government expenditure was counteracted only by marginal items of taxes paid and capital transfers.

Growth of the volume of subsidies and intermediate consumption expenditure slowed down dramatically.

The general government deficit in the EU narrowed slightly, quarter-on-quarter, at the beginning of this year.

The general government performance in the EU member states⁶ improved very slightly at the beginning of this year. The performance of the economy in the Union gradually weakened during 2025 due to the unstable geopolitical situation and tensions in trade relations with some key partners, and at the same time, the general government deficit worsened (up to 3.4% of GDP) due to faster growth of public spending. In Q1, this deficit narrowed to 3.1% of GDP. A deficit of over 3% of GDP was reported by 12 member states

¹ Unless stated otherwise, data regarding the budget balance of sector VI in the CR are expressed in nominal terms and without seasonal adjustment.

² Data regarding the budget of government institutions for Q2 2025 will be published by the CZSO on 1st October 2026, Eurostat subsequently on behalf of the Union member states on 21st October. More detailed assessment of the domestic development for Q1 2026 is offered in the publication Analysis of the sector accounts: *Analýza sektorových účtů*.

³ This deterioration was solely due to the subsector of local government institutions, whose operating surplus decreased by almost two-thirds, year-on-year, to 12 bn CZK, mainly due to a reduction of subsidies to regional education (total revenues of this subsector fell at the same time, for the first time in 14 years in Q1). On the contrary, the deficit of central government institutions, which has traditionally contributed dominantly to the deterioration of the balance of sector VI in recent years, narrowed by a sixth, year-on-year, to 83 bn CZK (the best result in the last four years). The very slight deficit of health insurance companies did not change significantly, year-on-year.

⁴ In recent years, they have accounted for more than a fifth of all government expenditure. Slightly more than half of the compensation paid is consistently accounted for by employees of local government institutions (52 to 53%).

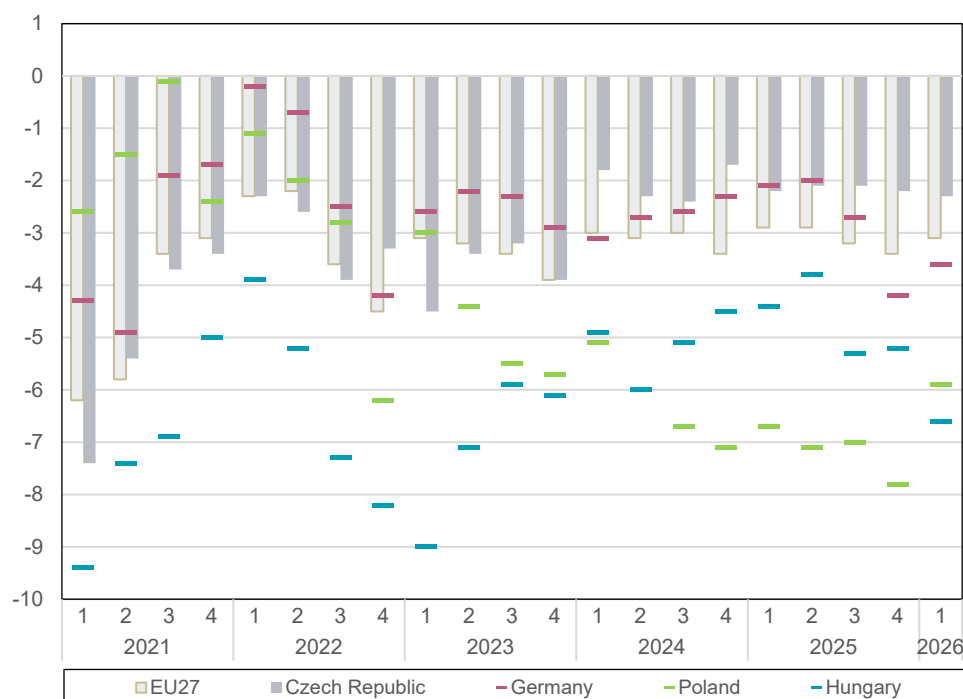
⁵ These include, for example, subsidies provided to cover operating and current losses of business entities, financial support intended for the reduction of mining or the closure of redundant production capacity, as well as contributions and support to enterprises employing persons with a changed ability to work. On the other hand, this does not include subsidies for products, the volume of which continued to grow rapidly in Q1 (+10%).

⁶ All the below given figures for income, expenses and balance are expressed after seasonal and calendar adjustment.

The deepest deficit currently burdened the new euro area member state – Bulgaria. On the contrary, the economic surplus occurred in only five EU countries. The Czech Republic maintained the lowest deficit within the Central European region.

(and 9 out of 21 euro area countries). Bulgaria, where it also widened the most, year-on-year (by 4.5 p. p.) was the most burdened (7.6% of GDP). Hungary (–6.6% of GDP), Poland (–5.9%), France (–5.1%), Belgium (–4.8% of GDP) and e.g. Germany (–3.6%), which was the only major economy to record a year-on-year deterioration of the deficit (by 1.5 p. p., also faced significant fiscal imbalances. The deficit currently stood at 2.3% of GDP in the Czech Republic (by a wide margin the least of all Central European countries) and was at almost the same level throughout last year. The economic surplus was reflected only in five mostly smaller countries. While in Cyprus, Denmark and Ireland it was a longer-term phenomenon (persisting at least since the pandemic subsided), in Greece and Portugal it was more of a current consolidation response to the long-term very high indebtedness of the government sector. Compared to the beginning of last year, the balance of the economy improved this year in ten EU countries – e.g. slightly in Poland (from –6.7% of GDP to –5.9%) and Spain (from –2.9% to –1.9% of GDP). However, only Romania (from –9.0% of GDP to –3.6%) featured a significant shift, which was still one of the ten countries facing systematic pressure from the Union to consolidate public finances⁷.

Chart 16 Budget balance of the general government institution sector in the CR, and selected EU states (seasonally adjusted, in % of GDP)



Source: Eurostat

The general government debt ratio in the EU has increased, year-on-year, the most in the last five years.

The gross consolidated debt of the general government sector in the EU stood at 82.9% (88.9% of GDP in the euro area) at the end of Q1. The level of debt in both groups was the highest in the last three and a half years. It grew, year-on-year, for the fifth quarter in a row – now by 1.5 p. p. (the highest in the last five years). Indebtedness in the EU also increased significantly, quarter-on-quarter (+1.1 p. p.), with nominal GDP⁸ strengthening acting against its growth. Indebtedness increased, year-on-year, in two-thirds of the member states – the highest was in Finland (+5.5 p. p. to 89.7% of GDP), Bulgaria (+4.8 p. p., to 28.5% of GDP), Poland (+4.6 p. p., to 61.6% of GDP), and of the major economies, mainly France (+4.0 p. p., to 117.6% of GDP) and Germany (+2.4 p. p., to 64.4% of GDP). However, it fell in some highly indebted countries – mainly in Greece (–9.4 p. p., to 143.5% of GDP, down by a third

⁷ This is the trigger of the so-called Excessive deficit procedure for breaching of fiscal rules. This standard procedure was resumed after a temporary interruption between 2020 and 2023 (due to the COVID-19 pandemic). Romania, Hungary, Slovakia, Poland, Austria, Italy, France, Belgium and, this year, Finland and Bulgaria are currently facing this process.

⁸ The nominal amount of debt in the EU alone stood at €15.705 trillion at the end of Q1 this year, up 2.1%, quarter-on-quarter.

In the Czech Republic, indebtedness increased slightly for the second year in a row, but it still reached a minimum within Central Europe.

in the last five years), Portugal (−3.8 p. p., to 91.0% of GDP) and Spain (−1.7 p. p., to 101.6% of GDP), but also in Denmark (−2.5 p. p., to 26.8% of GDP). Indebtedness in the Czech Republic increased slightly by 0.8 p. p. and reached the ninth lowest level in the Union (44.1% of GDP⁹). Despite recent significant consolidation efforts, Greece¹⁰ continued to dominate in a negative sense, ahead of Italy (138.9% of GDP), France and Spain. At the opposite pole is Estonia (25.2% of GDP¹¹) for a long time, currently followed by Denmark (26.8% of GDP).

8.2 State Budget Revenues

Markedly significant SB deficit continued for the seventh year in a row. This year, the deficit widened, year-on-year, among other things, due to a decrease of the positive balance in relation to the EU budget and a change in the budget allocation of taxes.

The state budget (SB)¹² ended with a deficit of 183.6 bn CZK in H1 2026, more than a fifth deeper, year-on-year (after adjusting the balance for funds from the EU budget¹³, this deterioration became even more pronounced¹⁴). Significant deficits thus weighed on the SB already the seventh year in a row, and this year's deficit was also the highest in the last three years. The year-on-year increase of the deficit occurred with a more significant strengthening of the growth rate of total expenditure and at the same time with a slight moderation on the revenue side of the budget. The persistently moderate growth of the domestic economy continued to be gradually reflected in higher tax revenues of the SB, nevertheless their growth was dampened by a change of the budgetary allocation of taxes, which reduced the share of the revenue of some weight-important taxes on the SB in favour of regional budgets¹⁵ from January 2026. In addition, the effects of the consolidation recovery package (already approved in 2023) continued to be felt on the revenue and expenditure sides of the budget. On the contrary, the impact of the specific provisional budget regime¹⁶, which at the beginning of the year affected mainly the drawdown of investments and the possibility of pre-financing some current transfers during Q2 2026, has practically disappeared.

The growth of total SB revenues was mostly driven by higher collection of social security contributions.

Total revenues of the SB increased by 4.0%, year-on-year, (+40.7 bn CZK) in H1 this year. Although this is the weakest pace in the last five years, this year's pace has exceeded full-year budget expectations¹⁷. Year-on-year revenue growth was driven mainly by higher collection of social security contributions, including active employment policy (+25.6 bn CZK), despite the fact that its growth slowed down and this year's pace (+6.4%) was slightly below budget expectations. The still relatively high pace reflected the good condition of the labour market, characterised by higher employment in the economy and rapidly growing average earnings. In addition, as in the previous year, there was a gradual, albeit temporary, increase in the minimum assessment base for premiums for the self-employed.

The growth of total tax SB revenues has stopped. The impact of the change

Tax revenues of the SB alone, under the influence of the change in the budgetary allocation of taxes and the de facto end of the collection of extraordinary corporate taxes

⁹ Nominal debt of general government institutions in the Czech Republic increased by 292.6 bn CZK, year-on-year, to 3,827.9 bn CZK, representing the only factor contributing (+3.3 p. p.) to the year-on-year growth of the debt ratio. On the contrary, rising nominal GDP reduced indebtedness (−2.5 p. p.).

¹⁰ It has held this unflattering primacy since Q2 2008, when it surpassed Italy in the position of the most indebted EU country (in the current definition).

¹¹ Its debt was still the highest in the available series since 2000. Finland, Poland, Romania and Luxembourg were in the same situation.

¹² Unless stated otherwise, all data related to the state budget stem from the data of the Ministry of Finance (MF) of the CR regarding the treasury fulfilment.

¹³ These are funds for programmes from the EU budget and Financial Mechanisms pre-financed by the SB and subsequently reimbursed from these sources.

¹⁴ The deficit adjusted in this way reached 203.6 bn CZK in H1 2026, a year earlier it was "only" 150.8 bn CZK.

¹⁵ Since January 2026, the state's share on VAT revenues and corporate and personal income has decreased by 2.55 p. p. in favor of municipalities and regions, which had a negative impact on SB in the amount of 16.7 bn CZK at the end of June. In the previous two years, on the other hand, the SB benefited from the change of the budget allocation of taxes (e.g. for the whole of 2025, according to the Ministry of Finance's estimate, 13.3 bn CZK).

¹⁶ The provisional budget was terminated on 20 March this year, with the entry into force of the Act on the State Budget of the Czech Republic for 2026. The domestic state budget also operated under the provisional budget regime in the past at the beginning of 1999, 2000 and 2022.

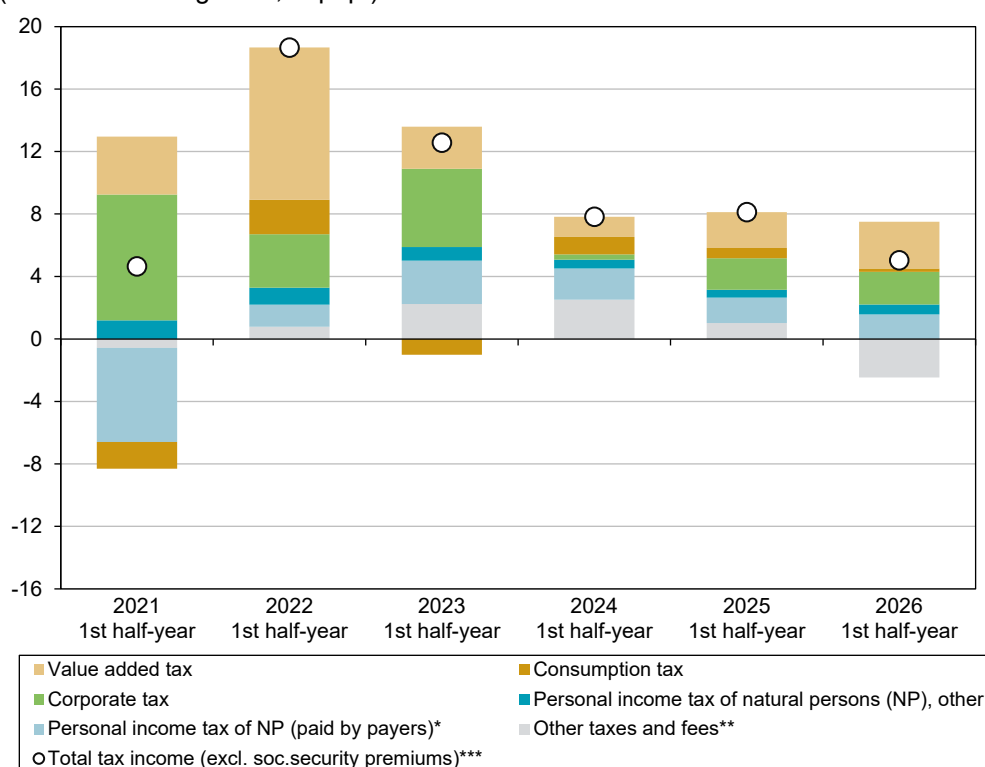
¹⁷ The Act on the State Budget for 2026 (based on the Ministry of Finance's macroeconomic forecast of January 2026) envisaged an increase of total revenues by 1.8% and expenditure by 2.4% for this year compared to last year. The budget deficit should amount to 310 bn CZK, which is a deficit 19.3 bn higher than the deficit actually achieved in 2025.

in the budget allocation of taxes and the fading of revenues from extraordinary taxes imposed during the energy crisis have become apparent.

So far, excise duty collection has remained below budget expectations

(imposed during the energy crisis), only stagnated, year-on-year, in H1¹⁸. The growth of tax revenues was driven by VAT, the collection of which increased by 3.5% (at the level of all public budgets, however, by 7.7%, of which it was even 8.8% in Q2, and in both cases it grew at a slightly higher rate than last year). This is related to relatively favourable consumer confidence in the economy, resulting in stable growth of private consumption. In terms of excise taxes (including energy taxes), the SB received only 1.8% more, year-on-year, and thus the collection has so far (as for the only major tax item) lagged behind budget expectations. Growth of tax collection on tobacco products remained weak¹⁹ and even slightly declined in the case of tax on alcohol or beer, which corresponded to longer-term trends in domestic consumption of these commodities. Tax collection on mineral oils increased by 3.5%, as growth of transport performance (in relation to developing international trade in the Czech Republic) had a positive effect. However, a temporary reduction in the tax on diesel began to have a negative effect with a slight delay²⁰.

Chart 17 Decomposition of year-on-year change of nationwide tax collection for H1
(contributions to growth, in p. p.)



* It includes income from dependent activity (this tax applies to employees).

** Other taxes and fees include especially real estate tax, gambling tax, motorway toll, tolls and, in years 2023 to 2025, also a levy on excess income and windfall profits.

*** It is a tax collection at the level of all public budgets of the Czech Republic. Its amount thus eliminates the impact of changes in the budgetary allocation of taxes.

Source: MF CR

The rapid growth of personal income tax, also due to their favourable position on the labour market, continued. Collections were also boosted by the persistently high

Regarding direct taxes, personal income tax (PIT) collection grew the most, by 8.1%. The higher collection of personal income tax paid by taxpayers (or from dependent activities) had the biggest impact here, on which the SB received 6.9% more, year-on-year, in H1. The growth rate of this item at the level of all public budgets remains approximately comparable to last year, which corresponded to stable nominal growth of the average wage and to a continuing slight strengthening of the number of employees in the economy. The

¹⁸ However, nationwide tax collection (taking into account revenues at the level of all public budgets) increased by 5.0% (even by 8.1% after deducting the above-mentioned extraordinary corporate taxes) and thus grew at a slightly higher pace than in the total for last year.

¹⁹ At the beginning of this year, the intensity of the pre-stocking of tobacco products by retailers was not nearly as strong as in the previous two years. Longer-term changes in the structure of consumption (a shift to alternative, so far relatively less taxed tobacco products) and probably also the persistently higher popularity of cross-border purchases (especially in Poland) likely had an impact.

²⁰ Of these, the total collection of tax on mineral oils increased by only 1.5%, year-on-year, in Q2 (it was even decreasing in June alone).

level of household savings.	collection of personal income tax paid by taxpayers (mainly from self-employment) slowed down in H1 2026 after last year's rapid growth related to legislative changes ²¹ , but still remained high (+24.8%). Similarly to last year, the growing number of small entrepreneurs has a positive effect on collections. After last year's rather rare decline, the collection of personal income tax collected by withholding increased again (+6.2%). Stable interest rates on deposits probably had the impact on the relatively high rate of household savings.
The growth of corporate tax collection accelerated slightly. The effect of the tax rate increase was fully felt.	Corporate income tax collection (excluding extraordinary taxes) increased this year (+4.2%). The pace at the level of all public budgets suggests that the growth of corporate tax collection has accelerated slightly compared to 2025 thanks to the ongoing economic recovery and rising tax rates. Collection of extraordinary corporate taxes ²² in this half-year amounted to only 0.7 bn CZK, down by 21.0 bn CZK, year-on-year.
Non-tax and capital revenues and transfers received by the SB increased, year-on-year, thanks to the strengthening of revenues from the EU budget and financial mechanisms.	Non-tax and capital revenues and transfers received by SB increased by a sixth in H1 (or +14.9 bn CZK). This was almost exclusively related to revenues from the EU budget and financial mechanisms, which were more than a third higher. The stronger inflow of these refunds could have been related to the high investment activity of the state last year and the strengthening launch of revenues from the 2021–2027 programming period and funds from the National Recovery Plan ²³ . This year, the approved SB expects a slight year-round growth of revenues from the EU budget and financial mechanisms (+6.6%), but at the same time a decline of total non-tax and capital revenues (−7.3%).

8.3 State Budget Expenditures

Growth of total expenditure accelerated. In addition to the end of the provisional budget, this was also due to a relatively higher drawdown of social benefits of significant volume.	Total state budget expenditure increased more significantly this spring after the relaxation of the provisional budget regime and was thus 6.2% higher, year-on-year, (+71.2 bn CZK) for the whole half-year, and this pace (the highest in the last three years) has so far more than doubled the annual budget anticipations. Current expenditure accounted for two-thirds of the growth, but investment also played an important role. The increase of current expenditure (+4.3%) was almost by one half driven by higher absorption of social benefits ²⁴ . Both expenditure on pensions (up by 14.0 bn CZK, year-on-year) and on other benefits (+6.2 bn) participated. In both cases, their growth rate has been slightly above budget expectations so far this year. Pension expenditure increased by 3.9% after last year's de facto stagnation. With a relatively insignificant change of the number of pension recipients (−0.3%) ²⁵ , the regular indexation in January 2026, which increased the average old-age pension by 3.1% ²⁶ , had a major impact on the drawdown. Despite the stable, relatively brisk pace of pension premium collection, the deficit of the pension insurance system (3.2 bn CZK) was recorded again, but it narrowed for the third year in a row (in the same period last year it amounted to 9.2 bn CZK and it was even 40.3 bn in H1 2023). At the same time, the current deficit was the lowest in the last seven years.
The deficit of the pension insurance system was significantly reduced for the third year in a row.	

²¹ These mainly comprised of the reduction of the income threshold for the second, higher tax rate, the abolition or reduction of some tax reliefs.

²² These are taxes on excess income and windfall profits. Their positive impact on the revenues of the SB culminated in 2023. This year, it is already completely negligible (no further advances of these taxes are expected, only in the second half of this year the tax for 2025 will be equalized).

²³ This was reflected in particular in the April payment (in the amount of 17.0 bn CZK) received from the Recovery and Resilience Facility, which was created to support economies after the COVID-19 pandemic.

²⁴ This traditionally weight-important item accounted for 39.0% of all SB expenditure in H1 2026. This represented a comparable share to the previous two years and at the same time it did not differ significantly from the long-term average.

²⁵ Of the categories of higher weight, only the number of disabled pensioners increased (+0.9%, especially in lower degrees of disability). The growth of permanently reduced old-age pensions remained relatively low (+0.8%, but these persons accounted for a full third of the total number of old-age pensioners). This was due to the approved stricter rules for early retirement (as of October 2024, the required insurance period increased from 35 to 40 years). In addition, further tightening had already taken place earlier: the maximum period of early retirement was reduced from 5 years to 3 years, the indexation of the percentage of early retirement until the full retirement age is reached was abolished, and the reduction of the amount of pension for early retirement increased significantly. However, from 2026 onwards, they were followed by a milder (half) reduction for those who have reached 45 years or more of insurance. This has probably led to a recent increase in new applications for early retirement.

²⁶ In June 2026, the average monthly old-age pension (excluding concurrence with other pensions) was higher by 3.5%, year-on-year, and amounted to 21.8 thousand CZK (23.1 thousand CZK for males, 20.6 thousand CZK for females).

The increase of expenditure on non-pension social benefits was mainly due to support for the unemployed and higher drawdown of sickness insurance benefits. Benefits for care for the long-term ill also increased.

Year-on-year growth of expenditure on other (non-pension) social benefits reached 5.9% in H1 this year (unlike pensions, however, year-on-year growth of these benefits slowed down compared to the pace of 2025). This year's growth was largely due to insurance benefits – mostly unemployment benefits. These benefits increased by 42% (+3.1 bn CZK) mainly due to legislative changes²⁷ aimed at increasing the motivation of people to change unsatisfactory jobs. The continuing slight increase in the unemployment²⁸ rate was also reflected. In addition, slight growth of expenditure on sickness insurance benefits continued for the third year in a row (+6.7%, +1.6 bn CZK). The growth was mainly driven by sickness benefits (depending on the growth of the applicant's previous wages²⁹) and maternity benefits, for which the decline halted after a long time. Income from insurance premiums paid by employed persons continued to increase, year-on-year, (+6.1%), partly still due to the statutory adjustment in connection with the consolidation package. As a result, the balance of sickness insurance³⁰ in H1 was in a slight surplus for the third time in a row (+5.2 bn CZK). Within non-insurance social benefits, rising contributions to care for the long-term ill had the largest impact (+6.6%, +1.5 bn CZK). The volume of paid parental allowances and foster care benefits also increased (in total +0.4 bn CZK). On the contrary, the payment of humanitarian benefits to Ukrainian refugees decreased (by 22% or 1.0 bn CZK), which was related to a year-on-year reduction of the number of recipients. Year-on-year comparison of other benefits of material deprivation assistance or state social support is currently difficult due to a significant change in the system of benefits provision³¹.

The rapid growth of expenditure in the area of public health insurance can be explained by the advancement of part of the payments, and in the case of the Czech Republic's contributions to the EU budget, among other things, by the growth of the EU budget.

Subsidies to social and public health insurance funds have also temporarily contributed significantly to the growth of current expenditure in the SB this year. They increased by a fifth (or 15.5 bn CZK) in H1 this year, largely due to the pre-financing of payments originally intended for the second half of the year. The approved SB expects a full-year growth of less than 3%, which corresponds to the statutory indexation of payments for state insured persons³². Furthermore, the Czech Republic's own resources contributions to the EU budget also grew significantly and above budget expectations (+45.5%, +12.9 bn CZK), which was partly related to the increase of the EU budget. The growth rate of expenditure on non-investment purchases of the state (excluding expenditure on the State debt chapter) accelerated to 8.9%, even though part of the compensation payments for services made last year in H1 were not paid this year. On the contrary, the strengthening of purchases in the area of defense proved to be a key factor. Expenditure on salaries in organizational units of the state increased the most in the last three years (+8.9%). Both the increase of expenditure on salaries in the area of state security (since the beginning of this year) and the increase for other large groups of employees³³, implemented since Q2, were reflected. An important mandatory item of

²⁷ From January 2026, the percentage rate decisive for calculating the benefit paid in the first months of unemployment has been raised. At the same time, the circle of persons entitled to support has also expanded (in relation to the reasons for the termination of the last employment relationship).

²⁸ The number of job applicants entitled to support was thus higher by 14 thousand, year-on-year, at the end of June this year (it reached 97 thousand persons, or 27% of all registered applicants, and this share did not change significantly, year-on-year).

²⁹ On the contrary, the total sickness rate decreased. According to CSSA data, the number of absent days (due to temporary incapacity for work) decreased by 5.3%, year-on-year, in H1.

³⁰ This expresses the difference between income from sickness insurance premiums and expenditure on benefits from this insurance according to the ČSSZ's balance sheet.

³¹ The new state social assistance benefit (the so-called super-benefit, replacing housing allowance, child benefit, subsistence allowance and housing supplement) was in a temporary period in H1 2026 (in principle only new applicants received it, it was 50 thousand people in June this year) and the volume of its payment amounted to 1.5 bn CZK. The replaced benefits decreased by about the same amount. A total of 15.3 bn CZK was issued to the existing recipients of these benefits (a total of 558 thousand were paid in June, some of the beneficiaries received more benefits at the same time). At the same time, the volume of extraordinary immediate assistance benefits paid rose fivefold, year-on-year (to a record 0.5 bn CZK). This was mainly related to the temporary support of people in material deprivation, who were in an unfavourable financial situation even after the transition to the new super-benefit.

³² This is a strengthening of the monthly payment of public health insurance for the so-called state insured (which was increased from 2,127 CZK to 2,188 CZK, i.e. by 2.9%, as of 1 January 2026 by the indexation mechanism).

³³ These were mainly civil servants and career civil servants, non-teaching workers, cultural employees or maintenance workers, as well as non-medical and social care workers.

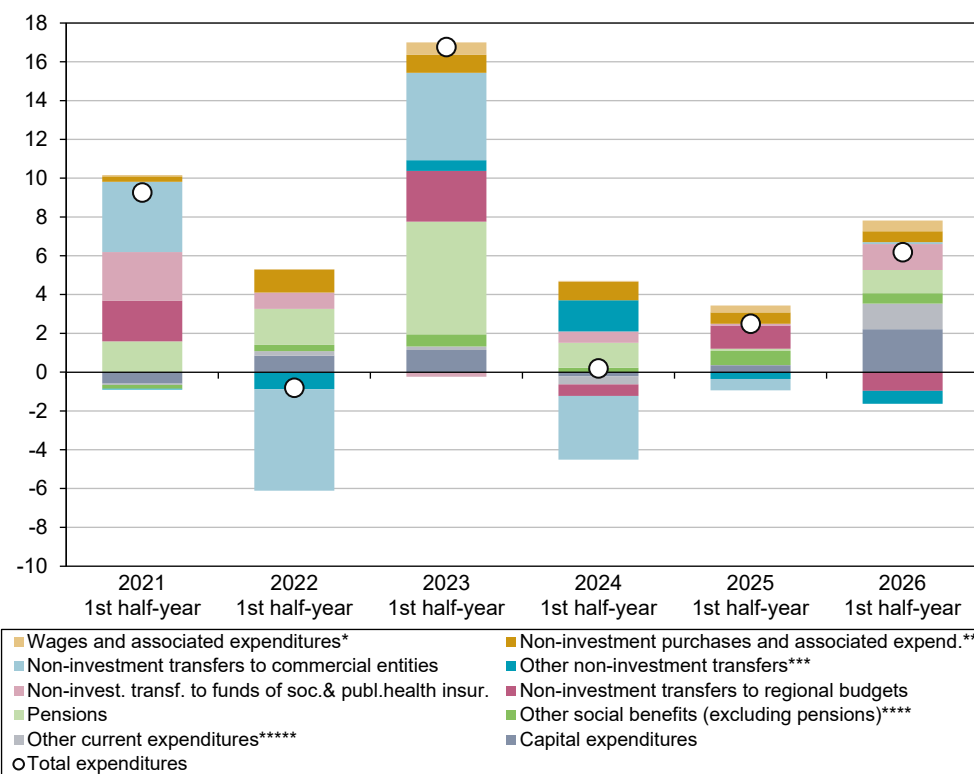
The growth of expenditure on servicing the state debt exceeded 50 bn CZK for the first time in the first half of the year. The total amount of government debt grew at a stable pace, solely due to internal indebtedness.

The budget-expected decrease of subsidies to regional budgets reflected a change in the financing of some workers in regional education.

SB is also expenditure on servicing the state debt³⁴, which mainly includes interest. They amounted to a record 50.7 bn CZK in H1 and increased by 6.1%³⁵, year-on-year. The amount of the CR state debt reached 3,727 bn CZK at the end of June this year and increased by 6.4%, year-on-year (the pace was only slightly lower compared to the total for 2024 and 2025) and by 1.3% since the beginning of this year. Only internal debt increased, year-on-year (+234 bn CZK), external debt³⁶ shrank mainly due to regular loan repayments to the European Investment Bank and the European Commission, which occurred at the beginning of this year.

The growth of current expenditure in H1 was mainly counteracted by a significant decrease of transfers to regional budgets (–6.0%, –11.2 bn CZK). This year's change in the system of financing non-teaching staff (transfer from the state to the founders – most often municipalities or regions³⁷) was reflected here. A deeper decline of subsidies to municipalities or regions was temporarily counteracted by pre-financing in the area of social services (already carried out for the whole of this year). Of the other major expenditures in H1, only subsidies to non-profit organisations fell significantly (–13.4%, –8.7 bn CZK). This was one of the few areas that was still affected by the repercussions of the provisional budget at the beginning of the summer (this was reflected in lower support for research, development and innovation provided to public institutions).

Chart 18: Decomposition of the year-on-year change in state budget expenditures for H1 (contributions to growth, in p. p.)



* Cover expenditures on salaries in central government institutions. Do not include e.g. wage costs of regional education.

** Also include the non-investment expenditures of the chapter State debt (No. 396).

*** Include subsidies to contributory organizations, state funds and non-profit organizations.

**** They mainly concentrate state social support benefits, sickness insurance, assistance in material need, benefits for persons with disabilities and care allowance under the Act on Social Services.

***** These are mainly the contributions of the Czech state budget resources to the EU budget.

Source: MF CR

³⁴ Net expenditures correspond to the balance of the budget chapter State debt (No. 396).

³⁵ In a full-year perspective, according to the approved SB, their volume should reach 110 bn CZK this year, with a year-on-year growth of 12.1%.

³⁶ The external debt amounted to 173 bn CZK at the end of the first half of this year, accounting for 4.6% of the total state debt, which was the lowest since 2004.

³⁷ This change of subsidy support was also compensated for by a change in the budgetary allocation of the tax (from January 2026).

Purchases in the area of security and also subsidies for transport infrastructure contributed to the rapid growth of capital expenditure.

Capital expenditure of SB increased, year-on-year, in H1 (+32.0% or 25.8 bn CZK). Slightly more than 40% of this year's planned investments have already been implemented³⁸. The growth of investment was mainly of a general-purpose nature – it was most evident in investment purchases (+75%), mainly due to the strengthening of internal and external security of the state and also the acquisition of real estate. However, transfers to state funds (+12.8 bn CZK), primarily to transport infrastructure³⁹, contributed the most to the strengthening of total investment. In addition, investments in local governments and entrepreneurs in terms of volume also increased rapidly (with a relatively high level of implementation). These were related to the development of the drawdown of European funds. On the contrary, their drawdown has been slower so far this year for contributory organizations, especially universities. Total investments accounted for 8.6% of all SB expenditure in H1 this year.

The Czech Republic's revenues from the EU budget strengthened thanks to higher drawdowns from the Structural Funds and also from the Recovery Instrument. The Czech Republic remained in the position of a net beneficiary in relation to the EU.

The Czech Republic's total revenues from the EU budget (excluding the EU Recovery Instrument or the National Recovery Plan⁴⁰ – NPO) increased by almost a fifth, year-on-year, in H1 this year (to 65.7 bn CZK), almost exclusively thanks to the Structural Funds (+14.3 bn CZK). On the contrary, the Czech Republic received a fifth less from the Cohesion Fund than last year, and the decline in agricultural allocation (especially for direct payments) was also an order of magnitude smaller. The Czech Republic's total contributions to the EU budget have reached 45.8 bn CZK so far this year, and since their percentage growth was more than twice as high as revenues, the Czech Republic's net position vis-à-vis the EU budget (excluding NPO) deteriorated slightly, year-on-year (however, a positive balance of +19.9 bn CZK was still reported). If we also include the funds from the NPO that the Czech Republic has been receiving since 2021, the total positive balance with the EU this year would amount to 38.2 bn CZK (the highest in the last three years).

³⁸ This half-year budget implementation is slightly above average in the context of the last decade. The continuity of this year's investment drawdown has been significantly disrupted at the beginning of the year (the impact of the provisional budget). Nevertheless, this expenditure grew, year-on-year, even in Q1 (+8.7%).

³⁹ They reached 42.1 bn CZK, with a year-on-year growth of 28.6%.

⁴⁰ This instrument was created due to the need to address the economic and social impact of the COVID-19 pandemic. It focuses on the recovery of the labour market, social protection and healthcare systems, reviving the potential for sustainable growth and employment, the transition to a green and digital economy, research and innovation, support for agriculture and rural development. Expenditure takes the form of grants and loans to member states provided by the Recovery and Resilience Facility and six other EU spending programmes for the period 2021-2027.